

MINUTES OF THE
UTAH TAX REVIEW COMMISSION
Friday, July 14, 2006 – 1:00 p.m. – Room W125 House Building

Members Present:

Mr. M. Keith Prescott, Chair
Sen. Brent Goodfellow
Sen. Lyle W. Hillyard
Rep. Wayne Harper
Rep. Rosalind J. McGee
Mr. Larry Barusch
Mr. Mark K. Buchi
Dr. Gary Cornia
Ms. Kathleen Howell
Mr. Bruce Jones

Members Absent:

Mr. David Crapo, Vice Chair
Ms. Janis A. Dubno
Commissioner Bruce Johnson
Mr. Dixie Leavitt

Staff Present:

Mr. Phillip V. Dean, Policy Analyst
Mr. Bryant R. Howe, Assistant Director
Ms. Rebecca L. Rockwell, Associate General Counsel
Mr. Mitch Park, Law Clerk
Ms. Phalin L. Flowers, Legislative Secretary

Note: A list of others present, a copy of related materials, and an audio recording of the meeting can be found at www.le.utah.gov.

1. TRC Business

Chair Prescott called the meeting to order at 1:07 p.m. Commissioner Marc Johnson, Tax Commission (Utah State Tax Commission), was recognized as being in attendance in the place of Commissioner Bruce Johnson.

MOTION: Dr. Cornia moved to approve the minutes of the May 19, 2006 meeting. The motion passed unanimously with Sen. Goodfellow, Rep. Harper, Rep. McGee, and Mr. Jones absent for the vote.

2. Land Value Tax

Dr. Larry Walters, Lincoln Institute of Land Policy, distributed and discussed "Estimating the impact of a Utah land tax for transportation." He explained that a property tax levy of 0.1 percent imposed only on the fair market value of land could yield about \$37 million annually for transportation infrastructure projects. These revenues could also be used to service a \$200 to \$300 million bond, should the Legislature decide to fund transportation projects at one time. He said that the average statewide property tax liability increase per parcel would be \$38.

Sen. Hillyard asked how land that benefits from enhanced highway access directly pays for that enhanced access through a land value tax. Dr. Walters replied that enhanced access to the land due to an improved road or highway should in theory increase the land's fair market value, thereby increasing the revenue yield of a property tax on land. Dr. Cornia said that the public finance literature finds that land values do in fact increase if located in proximity to and improved transportation facility.

Mr. Buchi asked what transportation funding options have been considered by the Legislature. Rep. John Dougall explained that he sponsored legislation to create the Transportation Planning Task Force. He explained that for two years the Task Force studied many options to pay for the rising cost of

infrastructure. The Task Force recommended the increased use of toll roads and to redirect sales and use tax from auto-related sales to transportation funding.

Dr. Cornia said that because a land value tax creates no economic dead-weight loss as do other taxes that there is no deterrence to economic development. He said that marginal sales and use tax rates in some circumstances do affect economic behavior. There may be a negative consequence for a community that imposes a higher sales and use tax rate than neighboring communities.

Mr. Jones said that the state will likely need funding from a variety of tax sources to pay for its transportation infrastructure needs. Sen. Hillyard said that the Legislature faces critical challenges in funding many areas of state government including higher education, and health and human services programs.

MOTION: Sen. Hillyard moved that Dr. Walters make a presentation regarding a land value tax to the Transportation, Environmental Quality, and National Guard Appropriations Subcommittee during the 2007 General Session.

SUBSTITUTE MOTION: Dr. Cornia moved that the TRC promote the option of land value tax as one method of funding transportation infrastructure projects.

Rep. McGee requested to divide the motion. Dr. Cornia withdrew his substitute motion.

The motion passed unanimously with Rep. Harper absent for the vote.

MOTION: Sen. Hillyard moved that the TRC draft a policy statement in support of a land value tax as one method of funding transportation infrastructure projects.

Mr. Buchi said that the policy statement should emphasize the meritorious aspects of a land value tax including its economic neutrality and the importance of an adequate transportation infrastructure to the state's future economic development.

The motion passed unanimously with Rep. Harper absent for the vote.

Chair Prescott asked Dr. Cornia and Mr. Buchi to participate in the drafting of the policy statement and noted that other TRC members are welcome to participate.

3. Property Taxes on Business Personal Property

Ms. Howell gave an update on the Utah Association of Counties' study on the administration of the property tax on business personal property. She explained that the filing process for property tax on business personal property has become more complicated, but that the Utah Association of Counties is taking steps to simplify filing for taxpayers.

Rep. John Dougall agreed with Ms. Howell's comments and answered questions from the TRC.

Mr. Allen Tippetts, Personal Property Division Director, Salt Lake County Assessor's Office, distributed and discussed "Threshold Filing Results." He explained that only a small percentage of business owners who have previously filed tax on business personal property took advantage of the threshold filing option offered by Salt Lake County. A larger percentage of new businesses, however, took advantage of the threshold filing option.

Dr. Cornia asked if threshold filing created a tax shift onto other taxpayers. Mr. Tippetts replied that it would shift taxes to residential and other business taxpayers.

Mr. Roger Tew, Utah League of Cities and Towns, said that he worked with Rep. Dougall to determine a *de minimis* amount that wouldn't burden other taxpayers with a tax shift of over one dollar.

MOTION: Ms. Howell moved to take no action on this item at this time. The motion passed unanimously.

4. Sales and Use Tax Exemptions

Chair Prescott turned the chair to Dr. Cornia.

Ms. Rockwell introduced this item.

Mr. Park discussed "Exemption for Boats Not Registered or Used in Utah" and "Exemption for Vehicles Not Registered or Used in Utah," which were distributed prior to the meeting.

Sen. Howard Stephenson explained that the purpose of amending this exemption during the 2006 General Session was to encourage the aftermarket modification of certain vehicles to be performed in Utah. He said that some multistate companies have these modifications made in Utah and that it is not fair for a sales and use tax to be imposed in Utah if the vehicle is not used in Utah.

Mr. Buchi noted that a Tax Commission administrative rule provides a *de minimus* exception, allowing the exemptions to be claimed if vehicles or boats are used in the state for a nonbusiness purpose for not more than 14 days in a calendar year. He commented that this *de minimus* exception is not codified as part of the statute.

MOTION: Mr. Buchi moved to recommend that the Legislature clarify the definition of what constitutes *de minimis* allowable under these exemptions. The motion passed unanimously with Rep. Harper and Mr. Jones absent for the vote.

MOTION: Sen. Hillyard moved that with respect to these exemptions: a) that staff provide additional information on whether there is a problem with reciprocity by other states; and b) to ask for testimony from industry representatives. The motion passed unanimously with Rep. Harper and Mr. Jones absent for the vote.

Dr. Cornia returned the chair to Chair Prescott.

Mr. Park discussed "Exemption for Property Brought Into the State by a Nonresident For Personal Use or Enjoyment," which was distributed prior to the meeting.

MOTION: Mr. Buchi moved to retain the exemption for property brought into the state by a nonresident for personal use or enjoyment. The motion passed unanimously with Sen. Hillyard and Rep. Harper absent for the vote.

MOTION: Dr. Cornia moved that staff provide additional information on how the foregone revenue estimate for this exemption was determined by the Tax Commission. The motion passed unanimously.

5. Severance Taxes on Oil and Gas

Mr. Howe distributed and discussed "Disposition of State Severance Tax Revenue and Public Royalties on the Extraction of Minerals in Utah."

MOTION: Mr. Buchi moved to study the allocation of revenues received by the state derived from the production of minerals on federal land and grants and loans approved by the Permanent Community Impact Board. The motion passed unanimously with Rep. Harper absent for the vote.

Mr. Lee Peacock, Utah Petroleum Association, gave an update on the Natural Resources Extraction Impact Working Group. He discussed "Natural Resources Extraction Impact Working Group draft report," which was distributed prior to the meeting.

MOTION: Dr. Cornia moved that the TRC address the Natural Resources Extraction Impact Working Group regarding a oil and gas severance tax trust fund.

SUBSTITUTE MOTION: Mr. Buchi moved that the TRC speak to Governor Huntsman concerning the oil and gas severance tax trust fund. The motion passed unanimously with Rep. Harper absent for the vote.

6. Full Disclosure: Controlling Property Tax Increases During Periods of Increasing Housing Values

Due to lack of time, this item was not discussed.

7. Other Business / Adjourn

MOTION: Rep. McGee moved to adjourn the meeting. The motion passed unanimously with Rep. Harper absent for the vote.

Chair Prescott adjourned the meeting at 4:41 p.m.